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RUEHTU/AMEMBASSY TUNIS 6899
RUEHNC/AMEMBASSY NOUAKCHOTT 6118
RUEHNM/AMEMBASSY NIAMEY 1373
RUEHBP/AMEMBASSY BAMAKO 0323
RUEHCL/AMCONSUL CASABLANCA 3148
RUEATRS/DEPT OF TREASURY WASHDC
RHFJUSC/US CUSTOMS SERVICE WASHDC
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C O N F I D E N T I A L SECTION 01 OF 03 ALGIERS 001748

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CASABLANCA FOR USFCS RORTIZ
CAIRO FOR TREAS ASEVERENS
COMMERCE PASS TO JREITZE

E.O. 12958: DECL: 12/05/2017
TAGS: [ECON](#) [EINV](#) [EFIN](#) [PREL](#) [AG](#)
SUBJECT: MAJOR ALGERIAN BANK PRIVATIZATION SUSPENDED
INDEFINITELY

REF: A. ALGIERS 01638
[1](#)B. ALGIERS 1471

Classified By: Ambassador Robert Ford for reasons 1.4 (d).

[1](#)1. (C) SUMMARY: At the last moment, Algeria suspended indefinitely the privatization of Credit Populaire d'Algerie (CPA), which was to have been the flagship privatization exercise for the Algerian banking sector. Three of the six foreign banks bidding on the Algerian state bank withdrew their bids in late November, leading to Algerian worries about the valuation of the bank. Citibank, the only American firm in the running, told the finance ministry that it would not submit a bid on the target date because of its senior leadership changes. Spain's Banco Santander and France's Credit Agricole also signaled they would not bid. This would have left only three French banks in the running, and the government decided to postpone the bidding at least until a clearer picture of the international financial markets develops. The delay may give some of the bidders who withdrew time to regroup and formulate new bids. It is also possible that this move actually signals the end of banking privatization in Algeria for the foreseeable future. The move has also raised new questions about Algerian serious to implement deep economic reform, and the abrupt announcement was viewed by some foreign companies as yet another example of government capriciousness and an unpredictable investment environment. END SUMMARY.

FREEZING THE PROCESS

[1](#)2. (C) On November 24, two days before Algeria was to have launched the sale of a 51-percent interest in the state-owned CPA, the finance ministry abruptly announced that the bidding process was "frozen" indefinitely. Citing concerns over the impact of the U.S. subprime mortgage crisis as the reason for the suspension, the ministry said it needed time to get a clearer image of the state of world financial markets and international financial institutions, in keeping with the ministry's long-standing concerns about the proper valuation

of CPA by bidders (reftel). Reports indicated that, in the days leading up to the suspension, two of the contenders (Citibank and the French Credit Agricole) had informed the ministry that they would not be submitting bids as expected. The Spanish bank Santander had already withdrawn, press reports and financial contacts told us. This apparently raised alarms that the three remaining bidders, the French banks Societe General, Natexis and BNP Paribas, would subsequently lower their bids for CPA. Central Bank Governor Lakcasi told Ambassador December 4 that the withdrawal of the Citibank and Credit Agricole had been a shock to the Algerian financial authorities and left them unsure whether the bank would get a fair price. (NOTE: The government has had at least one bad experience in this regard. In the run-up to a tender for the construction of a power-generating plant earlier this year, two of the three leading bidders dropped out in advance of the bid opening. The remaining European company, knowing that it was the sole bidder, nearly doubled the price of its bid, causing the government to cancel the contract and re-bundle it in order to save face and attract new bidders. END NOTE).

CITIBANK: KEY TO IT ALL?

13. (C) Kamel Driss, President of Citibank Algeria, told us on December 4 that he and two Citigroup executives personally informed the finance minister and his chief in charge of financial sector reform that Citibank would not offer a bid for CPA because Citigroup's corporate leadership remained in a state of flux (reftel). Driss said that neither the subprime crisis nor Citigroup's resulting financial troubles

ALGIERS 00001748 002 OF 003

were the leading factors; rather, the company simply could not go forward with a major acquisition without a permanent CEO in place. According to Driss, Finance Minister Djoudi said that he would have to notify the prime minister immediately. Driss also said that days before Citibank's decision to withdraw, he was told by someone close to Djoudi that the government wanted Citibank to win in order to add American influence and expertise to the financial sector. Based on that information and the minister's statement that he would need to consult the PM upon hearing Citibank's news, Driss assumes that the decision to postpone the privatization was made within the inner circle of the presidency.

THE END OF BANK PRIVATIZATION?

14. (C) Central Bank Governor Mohammed Laksaci told us on December 4 that he expected the CPA privatization to be put back on the table in 2008. However, while Driss also told us that the CPA privatization process might resume once Citibank and others signal that they were again ready to bid, he believed it more likely that bank privatization in Algeria was dead for the foreseeable future. Driss said the government was extremely wary of bank privatization, particularly since five years ago the government failed in its attempt to negotiate a no-bid sale of CPA to BNP. When Driss heard last year that the finance ministry was again interested in selling off CPA, his request to make a private offer was refused. He was told that the BNP experience left the government leery of such deals; instead it wanted to pursue a transparent, multiple-bid contract round. Now that the privatization has again failed, Driss was concerned that the government might abandon the reform altogether. CPA administrator Djellab told the Ambassador December 4 that the bank itself would maintain its normal operations and he planned to see if the World Bank's International Finance Corporation would resume a staff-training program suspended due to the bank's pending privatization.

INVESTMENT IMAGE TARNISHED

15. (C) Commentators and businesspeople have lamented the move by the finance ministry to suspend the CPA privatization as further proof that the investment climate in Algeria remains unpredictable and the government continues to act arbitrarily. At a November 27 Overseas Security Advisory Committee (OSAC) meeting held at the Embassy, several U.S. company representatives voiced their belief that the decision to freeze the CPA privatization would do more harm to discourage foreign investment in Algeria than the terrorist attacks since December 2006.

COMMENT

16. (C) This was only the latest in a series of delays involving the CPA privatization (reftel), but its impact on Algeria's investment climate is greater as most observers believed CPA would be sold by the end of 2007. Given Algerian government concern with maximizing the value of its resources, be it through sales of state-owned organs or through the negotiation of contract prices, freezing the CPA privatization does not come as a complete surprise. We have urged the Algerian authorities to explain in great detail the criteria they used to stop the privatization and to explain as well the criteria they will use in deciding when to restart it, thus helping to address the credibility issue. Lakcasi and Djellab both took the point, but such openness is not an Algerian custom. The mediocre Algerian banking sector is one of the biggest impediments restraining private-sector growth here (see ref B). Revamping the CPA with modern banking know-how would be a big step forward in helping

ALGIERS 00001748 003 OF 003

improve business conditions in Algeria and we will, therefore, keep urging the GoA to figure out how to move the privatization forward again.

FORD